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SUBJECT: ARMENIAN PRESIDENT'S VISIT TO IRAN FURTHERS  
ECONOMIC, ENERGY TIES

REF: YEREVAN 96

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Classified By: Ambassador Marie L. Yovanovitch. Reasons 1.4 (b/d).

¶1. (C) SUMMARY AND COMMENT: Last week's visit to Iran by President Sargsian was the culmination of a series of recent visits by officials of the two countries, and included the signing of eight MOUs, mostly on energy and transportation projects. Officials of both countries spoke of their desire to deepen relations, and Iranian officials also indicated to their GOAM counterparts optimism about improved relations with the USG.

¶2. (C) The GOAM's increased economic cooperation with its southern neighbor is likely driven primarily by economic security concerns; strong cultural differences will likely limit such cooperation in other areas. It has become customary for the two countries to mark each high-level visit with high-flying rhetoric and by signing a blizzard of agreements, most of which ultimately amount to little. The latest round of bilateral visits has produced more talk at a more senior level of the same well-known portfolio of proposed ambitious projects -- railroad, hydropower station, petroleum pipeline )- with at best modest incremental progress. Completion of these proposals will require hefty financial investments, and it remains unclear to us that there is anyone truly ready to put up the kind of money to make these lofty visions a reality. End Summary and Comment.

PRESIDENT VISITS IRAN, SIGNS MOUs  
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¶3. (C) President Sargsian visited Iran on April 13-14, saying "I came to the Islamic Republic of Iran resolute to deepen the friendship between the two countries." He was accompanied by Foreign Minister Edward Nalbandian and several other ministers. During the visit, Presidents Sargsian and Ahmadinejad signed eight MOUs on projects including construction of an Iran-Armenia rail line, investment in a hydropower plant on the Araks River bordering the two countries, and construction of a pipeline for transport of refined petroleum -- the same set of reputed (ambitious and costly) projects that have been trumpeted at every bilateral meeting between the two sides for some time. The MOUs also address free trade and closer cooperation on energy, banking and insurance.

IRAN WARMING TO U.S?  
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¶4. (C) Foreign Minister Edward Nalbandian told Ambassador

on April 15 that the GOAM has no choice but to cooperate with Iran on transportation and energy issues, given its closed borders with Turkey and Azerbaijan. In the course of President Sargsian's visit, he (Nalbandian) had met with senior Iranian officials including President Ahmadinejad and Ayatollah Khamenei, who gave his approval to the expansion of relations between Iran and Armenia.

15. (C) According to Nalbandian, Foreign Minister Manouchehr Mottaki told him during the visit that the Iranian government was optimistic about improved relations with the United States. Mottaki reportedly spoke very respectfully of President Obama (referring to him as "the distinguished American President" -- an apparent departure from past practice.) Nalbandian told Ambassador he had indicated to Mottaki his willingness to help pursue talks between the USG and Iran. Nalbandian also claimed that Mottaki told him Turkey would not be an appropriate intermediary for such talks (Comment: It is possible that the Iranians were simply trying to flatter the GOAM during the President's visit, but it is also plausible that Iran views Turkey as a regional rival, while tiny Armenia poses no threat to Iranian ambitions. End Comment).

#### CULMINATION OF SEVERAL RECENT VISITS

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6.(U) President Sargsian's trip followed visits in March and April by several ministers of the two countries, beginning with a two-day visit to Armenia on March 12-13 by Iran's Foreign Minister Mottaki. During that visit, Mottaki called for a deepening of political and economic ties between Armenia and Iran, and extended an invitation to President Sargsian from Iranian President Ahmadinejad to visit Iran in the near future. In response, President Sargsian called Iran a "good neighbor" and "reliable partner," and said the visit of Iran's FM will give "a new boost" to "continuously developing cooperation in all spheres."

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7.(U) Iran's Minister of Roads and Transport, Hamid Behbehani, visited Armenia on April 2 for discussions on the proposed Iran-Armenia railway, and Energy Minister Armen Movsisian visited Iran on April 10 to conclude discussions on a pipeline--first announced during Mottaki's visit in March--for refined petroleum that would run from Tabriz to the Armenian town of Yeraskh.

18. (U) During his two-day visit in March, Iranian FM Mottaki met with President Serzh Sargsian, Prime Minister Tigran Sargsian (no relation), Foreign Minister Edward Nalbandian, Energy Minister Armen Movsisian, Parliament Speaker Hovik Abrahamian, and National Security Council Secretary Artur Baghdassarian. This was the second visit of an Iranian official since December, when Iran's Deputy Security Chief visited Armenia. That visit followed on the heels of visits to Tehran by Armenia's NSC Secretary, Artur Baghdassarian and Energy Minister Movsisian. During his meetings, FM Mottaki highlighted the role of Iran's and Armenia's presidents over the past four years in raising the level of relations. He also reviewed the status of decisions made during the Armenian-Iranian intergovernmental commission in Tehran last November, which included ambitious energy and transport projects.

#### WHAT ARE THE BIG PROJECTS?

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19. (U) The MOUs signed by Presidents Sargsian and Ahmadinejad during last week's visit address construction of: an Armenian-Iranian railway; a hydroelectric plant on the Araks River (which borders the two countries); a petrochemical pipeline running from Tabriz to Yeraskh (in southern Ararat Marz). In addition, the two presidents signed agreements involving cooperation on energy, banking and insurance. The

two countries are also in the process of developing a high-voltage transmission line, though that project -) one of the most practical and economically viable -- is already underway and was not addressed in any of the MOUs.

#### IRAN-ARMENIA RAILROAD

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¶10. (C) The agreement on the railroad--a 500-kilometer line of which 60 km would be in Iranian territory--calls for Iran to lend Armenia USD 400 million toward construction of the Armenian segment; the total project cost is estimated at between USD 1.5-1.8 billion. Russia and Ukraine have reportedly expressed interest in financing the project, and the GOAM is likely to seek funding from the international donor community as well; the Asian Development Bank already agreed in late 2008 to finance a USD 1.5 million feasibility study, which a newly-appointed working group is expected to spend about three months developing. The railway would run from the northern Armenian town of Sevan to the southern border town of Meghri, before entering Iran. Such a rail line would improve transportation of energy supplies and other goods between the countries, which is now limited by often-impassable mountain roads. In a mid-February meeting, Armenia's NSC Secretary Artur Baghdassarian expounded to the Ambassador on this project, saying it would be represent a gateway for Armenia to trade with Iran, Central Asia and even China (reftel).

#### PIPELINE TO REPLACE REFINERY?

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¶11. (SBU) The two Presidents also signed a MOU for the construction of a 300-kilometer-long pipeline carrying up to 500,000 tons of refined petroleum products (gasoline and diesel) per year from the Tabriz oil refinery in Iran to the town of Yeraskh located in the Ararat region of Armenia that borders the capital of Yerevan. The pipeline was announced on the eve of FM Mottaki's visit by Armen Movsisian, Armenia's Minister of Energy and Resources, who said the pipeline would satisfy Armenia's domestic demand of about 500,000 tons annually. Movsisian and FM Mottaki reached a preliminary agreement on constructing the pipeline during Movsisian's visit to Iran in December.

¶12. (SBU) According to preliminary estimates of the Ministry of Energy, the estimated cost of the pipeline and oil terminal (to be located in Yeraskh) will be between USD 200-240 million, with work set to start this spring and be completed within two years. The pipeline is expected to lower significantly the cost of Armenia's petroleum imports, most of which currently come from Europe, shipped by rail from the Georgian port of Poti. Financing is to be provided by Iran, with gradual repayment made by Armenia after the pipeline's completion.

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¶13. (C) The pipeline project would apparently replace a refinery that Russia and Iran have for several years discussed building in the Meghri (southern Armenia) region. Deputy Energy Minister Areg Galstyan told EconOff on April 10 that refinery proponents had determined that a refinery was not economically feasible, so the GOAM asked Iran to construct a small pipeline (25 cm diameter) to transport refined petroleum to Armenia sufficient for its annual demand of about 500,000 tons of fuel. (COMMENT: It is not clear where Iran will obtain the petroleum it will export to Armenia, as the refinery was intended to bolster its own inadequate refining capacity. Galstyan was unable to answer this question, but noted that Armenia's annual demand is a small percentage of Iran's consumption, so Iran may simply import the extra fuel and transport to Armenia. End Comment).

#### REFINERY "NOT DEAD?"

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¶14. (C) While the pipeline is ostensibly intended to replace the refinery, Foreign Minister Edward Nalbandian told Ambassador on April 15 that despite the agreement to construct the pipeline, the oil refinery is "not dead." (Comment: Nalbandian's statement notwithstanding, the refinery has always sounded problematic, owing to the absence of either a nearby pipeline or body of water, making transport of petroleum in and out highly inefficient, requiring the railroad that Iran now plans to help finance. End Comment).

#### HYDROPOWER

¶15. (U) President Sargsian also signed a MOU regarding the countries' ambitions to build a hydropower plant on the Araks river that constitutes much of the border between Armenia and Iran. According to Deputy Energy Minister Galstyan, construction on this project, with 140 MW capacity, is expected to start this year. The Iranian government will finance the project, with the Armenians repaying the construction through electricity exports; there will be two hydropower plants, one on each side of the border.

#### ELECTRIC LINES

¶16. (SBU) While it has moved beyond the MOU stage, Energy Minister Movsisian announced on March 20 that the project work for the construction of a 400-kilometer-long high-voltage transmission line had been completed and that construction is to get underway by the end of May and likely to take 2-3 years. Movsisian said that Iran's Export Development Bank is financing the project, which is estimated to cost approximately USD 100 million. The power line will run across 300 km of Armenian territory and 100 km across Iran, with a throughput of 400 megawatts. The third line will complement the two existing transmission lines of 200 megawatts throughput each. Deputy Energy Minister Areg Galstyan told Econoff that the preliminary documents and agreements are all in place; the Ministry of Energy is working with USAID on dispatching and control systems.

#### NUCLEAR PLANT AND WEAPONS

¶17. (C) The MOUs did not address with the Iranians either replacement of the Armenian Nuclear Power Plant (ANPP) or Iran's nuclear weapons programs. The GOAM has long maintained that the ANPP project will be open to international participation but has never indicated it foresees a role for Iran. With regard to a nuclear weapons program, FM Nalbandian told Ambassador that the GOAM abides by all relevant UN resolutions. However, as Iran is their neighbor and they must maintain good relations, they have not been pressing this issue with them, and the Iranians did not raise it.

#### COMMENT

¶18. (C) Regular bilateral visits between Iran and Armenia almost invariably end in the issuance of effusive but vacuous statements about the importance of cooperation. The two countries have also signed MOUs in the past on similar projects, most coming to nothing. President Sargsian's visit, preceded by several ministerial visits, therefore stands out due to the announcement of at least three concrete energy projects -- the petroleum pipeline, development and financing for the railway and the hydropower plant on the Araks River. The pipeline can be viewed as a scaling back of plans for the oil refinery, but we would not be surprised if

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even this more limited project fails to make any real headway

in the near term. Iran's pledge to finance part of the railroad--which is key to the refinery's viability--may suggest that FM Nalbandian is correct that the project may yet resurface, but securing the balance of the necessary financing may prove elusive in the current global financial climate.

¶19. (C) The press releases that emerge from Iranian-Armenian bilateral summits, observed over time, seem spun from the gossamer of diplomatic politesse, with precious little of substance. There is room for some mutually beneficial energy cooperation, especially on electricity, and those projects tend to proceed in workmanlike fashion with little fanfare. We remain skeptical of the prospect of the more elaborate visions of new railroad lines, refineries, and petrochemical pipelines being realized any time soon. Moreover, the composite of political, cultural, and religious differences between Armenia and Iran work against any substantive relations in non-economic spheres.  
YOVANOVITCH